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March 13, 2006

AGENDA ITEM 12b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** United Nations Environment Programme Principles for Responsible Investment
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Approve becoming a signatory of the Principles for Responsible Investment

IV. ANALYSIS:

In early 2005, the United Nations (U.N.) Secretary General invited a group of the world's largest institutional investors to participate in developing the Principles for Responsible Investment (PRI). The process was coordinated by the U.N. Environment Programme (UNEP) and the U.N. Global Compact.

Individuals representing fifteen to twenty investment organizations from twelve countries participated in the "Investor Group" charged with drafting the PRI. The Investor Group included representatives of three public pension funds from the United States. Board President Rob Feckner and Interim Chief Investment Officer Anne Stausboll represented CalPERS in the Investor Group.

The Investor Group was supported by an "Expert Group", which consisted of representatives from the investment industry, academia, research institutions, government, and non-governmental organizations.

The text of the PRI recently has been finalized, and the UNEP and the U.N. Global Compact have issued an invitation to sign the Principles. This invitation is attached. (Attachment 1.) The U.N. intends to officially launch the PRI in late April 2006.

The PRI are designed to apply to large, diversified institutional investors that operate within a fiduciary framework. They reflect the view that environmental,

social and governance issues may be material to investment performance and accordingly, should be managed appropriately. The PRI provide a menu of possible actions for investors to use, as appropriate, to manage risks and opportunities associated with these issues.

The document that sets forth the PRI is embargoed until the U.N. official launch in April. To respect the U.N.'s process, we have not attached the document to this agenda item. However, the document has been sent under separate cover to members of the Committee.

The PRI are voluntary and aspirational, as opposed to mandatory. They are firmly grounded within the bounds of fiduciary duty; indeed the preamble to the PRI makes it clear that the Principles are to be applied only in ways that are consistent with fiduciary duty.

CalPERS staff recommends that the Investment Committee become a signatory to the PRI for the following reasons:

- The PRI are consistent with CalPERS' strategic goals, including: Goal I, Exercise global leadership to ensure the sustainability of CalPERS' pension and health benefit systems; and Goal IX, Achieve long-term, sustainable risk adjusted returns.
- The PRI are consistent with CalPERS existing investment policies and procedures. These include for example, CalPERS long-standing corporate governance program, the environmental initiative, the executive compensation initiative, the Responsible Contractor Policy, the Permissible Country Policy, and the Global Proxy Voting Principles.
- The PRI will provide a high-level framework for developing additional policies and procedures, when consistent with CalPERS' fiduciary duty, relating to environmental, social and governance issues.
- The PRI will provide a hub around which investors can collaborate on various issues and strategies. In addition, the PRI secretariat will provide implementation guidance, and assistance with collaborative engagement.

V. STRATEGIC PLAN:

The PRI are consistent with CalPERS' strategic goals, including: Goal I, Exercise global leadership to ensure the sustainability of CalPERS' pension and health benefit systems; and Goal IX, Achieve long-term, sustainable risk adjusted returns.

VI. RESULTS/COSTS:

The PRI are consistent with CalPERS existing strategic mission, and policies and procedures. Becoming a signatory should not lead to the expenditure of significant additional resources.

There is no compulsory fee associated with becoming a signatory. However, the U.N. has requested a voluntary fee of \$5,000-10,000 to help the work of the U.N. secretariat in supporting signatories and promoting the Principles. If the Committee becomes a signatory, staff recommends that CalPERS pay this voluntary fee.

Anne Stausboll
Interim Chief Investment Officer